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SENSITIVE

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USDOC FOR 4212/ITA/MAC/CPD/CRUSNAK
DOE FOR CHARLES WASHINGTON

E.O. 12958: N/A

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SUBJECT: BTC OIL REACHES TURKEY - CEYHAN IN SPRING 2006

REF: ANKARA 6294

Sensitive But Unclassified.

11. (SBU) SUMMARY: BTC first oil crossed the Turkish border from Georgia on November 17. First tanker loading at Ceyhan is expected in spring 2006, which is also the expected timing for a first oil inauguration ceremony. BTC has addressed complaints filed in the formal OECD investment complaint process, citing them as unfounded, false, or unfair. Embassy believes both the complaint process and community/environment investment programs are efficient and robust. End Summary.

Timing for First Lifting at Ceyhan still TBD

12. (SBU) Lost in the pomp and fanfare of the three-leader Blue Stream gas pipeline official inauguration (septel), BTC first oil quietly crossed into Turkey from Georgia on November 17, marking an important step toward completion of the three-country pipeline from Azerbaijan. Although the prime contractor in Turkey -- BOTAS -- suffered significant delays stemming from the challenge of managing multiple subcontractors of varying expertise and financial liquidity, comparable delays also materialized in Georgia. The ultimate accountability for delay is still unclear (BTC and Botaz point at each other) and will be the basis for intense negotiation and discussion (the BTC Consortium lent money to BOTAS to provide liquidity to complete completion in Turkey, as it took over some of the sub-contracts).

13. (SBU) GOT MFA DDG Energy Mithat Rende told EmbOffs that the BTC first oil lifting inauguration was still targeted for March 2006. He said that the GOT planned to organize a late morning event at Ceyhan, followed by a PM-hosted dinner in Istanbul or Antalya. Informing Rende of Secretary Bodman's desire to attend, visiting DOE

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Official advised Rende to keep it simple; i.e., consider plan for one-day of activities and consider avoiding multiple locations. A BP official confirmed to EnergyOff that the company expected the ceremony to be "in the spring."

Seeking Local Buy-in - - Complaints from Outside

14. (SBU) BTC allocated \$12.3 million to its Community and Environment Investment Program in Turkey, aiming to promote sustainable social and economic development in settlements within the 4 km wide BTC pipeline corridor, working with multiple NGO implementers. BTC Environmental and Social Manager Paul Sutherland briefed Energy Officer on its detailed response to the report generated by the UK OECD investment complaint process rep (ref). Although he did not share the UK report or the draft response, he provided point-by-point verbal details. After carefully researching the complaints, some alleging discrimination against "minority" groups, BTC identified all of them as unfounded, false, or unfair. The BTC rep said that the UK investment rep was not adequately briefed on individual village agreements and BTC suspects that the Kurdish Human Rights Project or others might have pre-coached complainers, either pursuing political agendas or encouraging a last shot opportunity at BTC's perceived deep pockets.

15. (SBU) Sutherland described the detailed needs assessment process, whereby in each village, BTC, village officials, and local reps of the GOT Ministry of Village Affairs identified and agreed on community investment program goals and contributions of all the different parties, including villages. To gain local buy-in, the BTC contribution was intended to be a catalyst and lever for meeting community felt needs. These village

agreements were documented and made public. The BTC rep cited a number of early successes in livestock artificial insemination and irrigation. In no situation were community investment funds to be used for political or religious institutions. Here are a few examples of complaints and responses researched by BTC:

-One complainant alleged that other villages got new mosques, and they did not, insinuating that this was because their village was predominantly Alevi. Response: Absolutely no funds have been dispensed for religious purposes.

-Some villagers complained that BTC did not provide promised water systems or roads. Responses: All complaints involved: items not agreed to or promised in needs assessment agreement; non-performance by third parties (not under BTC control) such as a sub-contractor engaged by GOT Village Affairs; confusion with separate commitments from BOTAS on the separate natural gas spur to feed Pump Station One (BOTAS insisted that this be separate from BTC).

16. (SBU) Sutherland asserted that the grievance systems for both land appropriation and construction problems were robust and working well. He noted that they were transparent and internet-based, and by all measures of performances they were succeeding; i.e., successful outcomes documented and number of outstanding complaints diminishing.

17. (SBU) The BTC rep also cited numerous instances where the project had taken costly measures or delays to protect spawning fish, nesting endangered birds, and newly-discovered archeological sites (overcoming frequent objections from BOTAS). He noted that many of the pipeline block valves were located for environmental reasons. The project has carried out extensive seed collection and anti-erosion measures as part of its intense land reinstatement program.

18. (SBU) COMMENT: Embassy agrees with BTC's assertion that the complaint process is working and under control. The project can serve as a model for international pipeline approach to community and environment sustainable development. In a project of such magnitude, there will be some lingering construction complaints and/or gadflies seeking to take advantage of BTC's deep pockets or to advance their own political agendas. As noted in previous reporting (ref), the campaigns of the Kurdish Human Rights Project and others are being driven from outside Turkey and do not resonate domestically. BTC is doggedly working these issues externally and transparently. It is not clear how much of the BTC high standards for safety and environment will be taken on board by BOTAS when it executes its connection to the follow-on South Caucasus natural gas Pipeline (the Turkey portion and connection to its grid at Erzurum are separate from the international SCP natural gas pipeline consortium).

McEldowney